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UNITED NATIONS POPULATION FUND

FOLLOW-UP TO THE REPORT OF THE UNITED NATIONS BOARD OF AUDITORS FOR 2000-2001: STATUS OF IMPLEMENTATION OF RECOMMENDATIONS*

Report of the Executive Director

1. Pursuant to decision 97/2 taken by the Executive Board at the first regular session 1997, the Executive Director wishes to bring to the attention of the Executive Board a status report on follow-up measures to the recommendations contained in the report of the United Nations Board of Auditors on the United Nations Population Fund for the biennium ended 31 December 2001 (A/57/5/Add.7). The Auditors' review concerns the efficiency of financial procedures, internal financial controls and the management of UNFPA. The report of the Board of Auditors (A/57/5/Add.7) and the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors by the United Nations funds and programmes for the financial period ended 31 December 2001 (A/57/416/Add.1) were reviewed by the Advisory Committee on Administrative and Budgetary Questions in document A/57/439.

2. In 2002, the Executive Director reported to the Executive Board on the status of implementation of the recommendations of the Board of Auditors for the financial period ended 31 December 1999 (DP/FPA/2002/2), by updating the report of the Board of Auditors on the implementation of the recommendations submitted to the fifty-sixth session of the General Assembly (A/56/132). However, since the Executive Board had not been previously informed of the follow-up to the audit recommendations for

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

the financial period ended 31 December 2001, the Executive Director considered it useful to provide a comprehensive report on the matter. The annex of this document therefore reproduces in full the report of UNFPA on the measures to be taken to implement the recommendations contained in the report of the Board of Auditors for the financial period ended 31 December 2001, submitted to the fifty-seventh session of the General Assembly (A/57/416/Add 1). Since the information provided to the General Assembly in document A/57/416/Add.1 is recent, no update was deemed necessary. The Executive Board may recall that audit issues were also addressed in the annual report on internal audit and oversight activities (DP/FPA/2002/8), submitted to the annual session 2002 of the Executive Board.

Recommendation

The Executive Board may wish to take note of the report of the Executive Director on follow-up measures taken or planned in implementing the recommendations of the United Nations Board of Auditors for the biennium 2000-2001, as contained in the annex to document DP/FPA/2003/1.

Annex

Recommendations made by the Board of Auditors in their report on the accounts of the United Nations Population Fund for the financial period ended 31 December 2001

1. The information below is identical to that contained in document A/57/416/Add.1, paragraphs 466-555. The paragraph numbers correspond to those contained in document A/57/416/Add.1. The paragraph references refer to those cited in the report of the Board of Auditors (A/57/5/Add.7).

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466. Action taken or to be taken to implement the recommendations of the Board of Auditors set out in its report on UNFPA for the biennium ended 31 December 2001 is described below.

467. **In paragraph 10 (a), the Board recommended that UNFPA review the funding mechanism and targets for end-of-service benefits in conjunction with the United Nations and other funds and programmes.**

468. UNFPA concurs that there is a need for improving the methodology for computing and disclosing end-of-service benefits. The Chief, Finance Branch, will participate in any inter-agency discussions on the matter. However, given its small staff, UNFPA would not be in a position to be the lead agency.

469. The Director, Division for Finance, Administration and Management Information Systems, and the Executive Director are responsible for implementation of the recommendation.

470. **In paragraph 10 (b), the Board recommended that UNFPA take immediate action to bring to a conclusion the advance in respect of field accommodation that has remained outstanding for eight years.**

471. UNFPA has made a considerable effort to resolve the issue. Despite extensive ongoing negotiations with UNDP and the involvement of the Office of Legal Affairs of the Secretariat, the matter remains unsettled. The major hurdle to date has been the inability of UNDP to provide and substantiate costs incurred under the original reserve for field accommodation project. At this juncture further proposals are awaited from UNDP. UNFPA expects to resolve this issue in 2002.

472. The Deputy Executive Director (Management) is responsible for implementation of the recommendation.

473. **In paragraph 10 (c), the Board reiterated its recommendation that UNFPA improve its monitoring procedures to ensure that country offices do not exceed their expenditure allocations.**

474. UNFPA accepts the recommendation that it should improve its monitoring procedures. Financial discipline is one of the key competencies in the UNFPA performance assessment process. Representatives and division directors who authorize expenditures over and above their ceiling will be held fully accountable. On an aggregate level, UNFPA stayed well within its resources. The accounts of the biennium 2000-2001 were closed with an overall surplus of $67.4 million in regular resources. Country offices are primarily concerned that country programme and subprogramme expenditures stay within the levels approved by the Executive Board. Due to the volatile nature of the programme environment and related

implementation dynamics, individual budget lines have been overspent on occasion. However, UNFPA recognizes the importance of this observation and country offices will be reminded to stay within approved project budgets.

475. The Director, Division for Finance, Administration and Management Information Systems, and the Chief of the UNFPA Audit Section are responsible for implementation of the recommendation.

476. **In paragraph 10 (d), the Board recommended UNFPA ensure that standard terms of reference are agreed between the country office, governmental implementing partners and the auditor of nationally executed expenditure, and that the scope and format of the audit is consistent; and compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.**

477. UNFPA will develop a checklist of standard requirements to assist country offices to adhere to the requirements of the finance manual for the 2002 audit exercise. Also, during management audits of the country offices and programme divisions at headquarters, it will ensure that standard terms of reference have been agreed to between the country offices and programme divisions, the implementing agency and implementing partners for audits of nationally executed expenditure.

478. The Director, Division for Finance, Administration and Management Information Systems, and the Chief of the UNFPA Audit Section are responsible for implementation of the recommendation.

479. **In paragraph 10 (e), the Board recommended that UNFPA intensify its efforts to improve the audit coverage in countries in which coverage was low and implement controls to obtain compensating assurances that funds were used for the purposes intended.**

480. UNFPA is following up with country offices and concerned headquarters divisions to ensure audit coverage for the 2001 audit. A low project audit coverage is a main criterion for a management audit of a country office. UNFPA prepares a list of offices with low audit coverage and will ensure compensating assurances while making every effort to increase the audit coverage.

481. The directors of the geographical divisions and the Executive Director are responsible for implementation of the recommendation.

482. **In paragraph 10 (f), the Board recommended that UNFPA quantify the financial effect of the audit qualifications made in respect of nationally executed expenditure and evaluate such qualifications against the action plans for reasonableness.**

483. The recommendation is already being implemented. UNFPA had started to quantify the financial effect of the audit qualifications with the 2001 audit exercise and will evaluate the qualifications against the action plans for reasonableness when the plans are received.

484. The Director, Division for Finance, Administration and Management Information Systems, and the Chief of the UNFPA Audit Section are responsible for implementation of the recommendation.

485. **In paragraph 10 (g), the Board recommended that UNFPA perform a forward-planning exercise to ensure that sufficient resources are available to evaluate audit reports on nationally executed expenditure after the prescribed deadline.**

486. UNFPA agrees to increase forward planning to ensure that evaluations of audit reports are issued in a timely manner. Additional staff were recently assigned to ensure that evaluations are issued on time. This resulted in improved performance in the 2001 exercise.

487. **In paragraph 10 (h), the Board recommended that UNFPA create a comprehensive database which would facilitate the implementation of a risk-based assessment model.**

488. UNFPA agrees to create a comprehensive database to facilitate the implementation of a risk-based assessment model. Design and set-up of the database will begin towards the end of 2002. The basic elements of the system are expected to be in place in the first quarter of 2003.

489. The Chief, Office of Oversight and Evaluation, and the Chief of the UNFPA Audit Section will collaborate in implementing the recommendation.

490. **In paragraph 10 (i), the Board recommended that UNFPA maintain data relating to the audit cost for each project on the consolidated database and analyse the cost in order to determine whether the benefit of the actual audit exceeds the cost, its relation to project expenditure and the risk assigned to the project.**

491. UNFPA has been keeping data on the total cost of audits per country in the audit plan database but will obtain and/or include the cost per audit project in the consolidated database. For the 2001 exercise, the cost-benefit analysis was done by the country offices and programme divisions in the process of selecting projects to be audited with the objective of auditing 90 per cent of nationally executed expenditure.

492. The Director, Division for Finance, Administration and Management Information Systems, and the Chief of the UNFPA Audit Section are responsible for implementation of the recommendation.

493. **In paragraph 10 (j), the Board recommended that UNFPA conclude service-level agreements with UNDP to ensure that services and costs are defined and to enable UNFPA to be fully accountable for transactions incurred on its behalf.**

494. UNFPA expects all service agreements to be concluded in 2002.

495. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementing the recommendation.

496. **In paragraph 17, the Board recommended that UNFPA approach its Executive Board with a view to defining the range of financial assumptions on which the operational reserve should be based and that, furthermore, UNFPA clearly disclose the basis of computing the reserve in the notes to the financial statements.**

497. UNFPA accepts the recommendation. UNFPA will disclose the methodology employed in a note to the financial statements for the biennium 2002-2003. The guidance of the Executive Board will be sought on how the methodology could best be formalized. It should be pointed out that by UNFPA Governing Council decision 91/36, the Executive Board is mandated to review the level of the operational reserve every other year.

498. The Director, Division for Finance, Administration and Management Information Systems, in collaboration with the Director, Information, Executive Board and Resource Mobilization Division, are responsible for implementation of the recommendation.

499. **In paragraph 21, the Board recommended that UNFPA should make a provision for doubtful collection which should be appropriately disclosed in the financial statements and the notes thereto.**

500. UNFPA accepts the recommendation. UNFPA will review the outstanding pledges and make a recommendation for eventual write-offs. For the 2002-2003 financial statements, UNFPA will arrange for write-offs of doubtful collections. The methodology employed will be disclosed in a corresponding note.

501. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

502. **In paragraph 23, the Board recommended that UNFPA disclose investments, in accordance with paragraph 48 (ii) of United Nations system accounting standards, in the notes to the financial statements.**

503. UNFPA will ensure the disclosure of the value of investments in accordance with paragraph 48 (ii) of the accounting standards. Any bookkeeping errors regarding the 2000-2001 statements will be corrected by adjusting entries.

504. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

505. **In paragraph 25, the Board recommended that UNFPA avoid offsetting debit and credit balances in contravention of paragraph 46 of the accounting standards.**

506. UNFPA accepts the recommendation and will immediately discontinue the practice of "netting out" within the limitations of IMIS.

507. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

508. **In paragraph 29, the Board recommended that UNFPA perform regular reconciliations with UNDP records and that reconciling items be followed up and cleared in a timely manner.**

509. UNFPA accepts the recommendation and expresses its commitment to work closely with the UNDP Treasury to maintain the consistency and accuracy of data. UNFPA is now conducting regular reconciliations with the records of UNDP.

510. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

511. **In paragraph 31, the Board recommended that UNFPA obtain the monthly payroll from UNDP and verify the payroll expenses to the expenses charged on the general ledger by the United Nations.**

512. UNFPA accepts the recommendation and intends to make payroll reconciliation a key management control in 2002. Starting in September 2002, the payroll will be reconciled on a monthly basis.

513. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

514. **In paragraph 35, the Board recommended that UNFPA take immediate measures to recover outstanding accounts receivable.**

515. UNFPA accepts the recommendation and will introduce procedures to clear (recover or write off) the outstanding amounts. It is expected that the outstanding amounts will be cleared by the closing of the 2002 financial period.

516. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

517. **In paragraph 43, the Board recommended that UNFPA account for all contributions received and closely monitor trust fund income and expenditure in order to ensure that it does not obligate expenditure without sufficient funds being available.**

518. UNFPA is fully committed to the funding principle. Some of the overexpenditures recorded are due to accounting errors for which adjusting entries have been made. UNFPA will tighten the operational procedures and the specific responsibilities of the various branches and divisions with regard to trust fund income and expenditures will be outlined. The revised procedures will be in place by the end of 2002.

519. The Director, Division for Finance, Administration and Management Information Systems, is responsible for implementation of the recommendation.

520. **In paragraph 59, the Board recommended that UNFPA generate an age analysis to review outstanding advances made in respect of nationally executed expenditure with a view to ensuring accountability of implementing partners, taking into account future work plans.**

521. UNFPA is committed to ensuring control of individual outstanding advances as well as their overall level and will periodically identify those balances that appear to be either excessive in terms of the funding level or that have remained outstanding for several quarters. The concerned country offices and headquarters divisions will be requested to review the balances and if necessary to take corrective action. The first such review is expected to be completed in 2003.

522. The Director, Division for Finance, Administration and Management Information Systems, and the Chief of Finance are responsible for implementation of the recommendation.

523. **In paragraph 61, the Board recommended that UNFPA include in its monitoring tools details of the appointment of auditors of nationally executed expenditure and use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual.**

524. UNFPA accepts the recommendation and will develop specific procedures and predetermined criteria to assist country offices and concerned divisions at headquarters in recruiting project auditors for the 2002 accounts. Such procedures will include standard terms of reference and quality standards for the

selection of auditors as well as for audit reports. The UNFPA representatives and the concerned directors at headquarters will be advised of their responsibility for ensuring quality control.

525. The Director, Division for Finance, Administration and Management Information Systems, and the Chief of the Audit Section are responsible for implementation of the recommendation.

526. **In paragraph 63, the Board recommended that UNFPA include in its directives on nationally executed expenditure specific procedures and predetermined criteria to ensure that auditors of the required independence, integrity and technical competence are appointed and that compliance with those directives is monitored by the country office.**

527. See paragraphs 524 and 525 above.

528. **In paragraph 72, the Board recommended that UNFPA devote special attention to those country offices that had not submitted audit plans in time by requesting them to commence the planning exercise well in advance of the prescribed deadline, and that UNFPA intensify its follow-up action for country offices that have not adhered to requirements.**

529. UNFPA agrees to request country offices that did not submit audit plans in time to start the planning exercise well in advance of the prescribed deadline and will implement the recommendation for the 2002 audit exercise.

530. The directors of the geographical divisions and the Chief of the Audit Section will be responsible for implementation of the recommendation.

531. **In paragraph 75, the Board recommended that UNFPA include in a consolidated database all country office action plans relating to the audit reports on nationally executed expenditure and that non-compliance by the country office should be noted and taken into account in the overall assessment of that office.**

532. The recommendation regarding the consolidated database was implemented with the 2001 audit exercise. Since 2001 the audit coverage has been included in the performance assessment of UNFPA representatives and compliance with country office action plans will be included in the 2002 performance assessment.

533. **In paragraph 89, the Board recommended that UNFPA adhere, as far as practical and feasible, to the mandatory project evaluation and monitoring procedures prescribed in its directives. Furthermore, UNFPA headquarters should focus its attention on those projects that have not been subjected to audits of nationally executed expenditure as a means of obtaining adequate assurance, and should also record in the consolidated database details of compensating controls implemented in those country offices at which assurance is low.**

534. See paragraphs 480, 481, 488 and 489 above.

535. **In paragraph 99, the Board recommended that, in concluding service-level agreements with UNDP, UNFPA should ensure that such agreements will enable it to implement and review key controls, such as bank reconciliations.**

536. All service agreements will include the responsibilities of the two contracting parties.

537. **In paragraph 103, the Board recommended that organizational units at UNFPA headquarters be tasked with the review and verification of all non-expendable equipment under the Fund's control. Furthermore, UNFPA should expedite the transfer of all remaining non-expendable equipment to the coding system.**

538. UNFPA agrees that control over non-expendable equipment needs to be more systematic, and it is committed to ensuring that all its inventory records are correct and accurate and that reporting of project equipment is done on a timely basis. UNFPA will tighten its controls at headquarters and at the country offices with a view to making the data more timely and accurate. UNFPA also expects that all headquarters' assets will be coded by the end of 2002. Discrepancies noted in the data will be corrected in 2002.

539. The directors of the geographical divisions and the Director, Division for Finance, Administration and Management Information Services, are responsible for implementation of the recommendation.

540. **In paragraph 105, the Board recommended that in order to facilitate effective control over the receipt of all goods and services procured, all country offices complete receipt and inspection reports within three weeks of the delivery of such goods or services and forward such reports to the headquarters procurement unit, as prescribed in paragraph D.25 of the UNFPA procurement manual.**

541. The Chief, Procurement Services Section, will monitor the country offices' compliance with this requirement. Non-compliance will be included in the performance assessment of representatives. In May 2002, UNFPA reminded country offices to submit receipt and inspection reports in a timely manner. Another reminder will be issued in the last quarter of 2002.

542. The Director, Division for Finance, Administration and Management Information Systems, and the Chief, Procurement Services Section, are responsible for implementation of the recommendation.

543. **In paragraph 107, the Board reiterated its recommendation that UNFPA develop a process for formally recording and monitoring the performance of its suppliers.**

544. UNFPA accepts the recommendation. It will formalize its quality-control process, develop a vendor performance system and design set-up and documentation. An interim system will be available in February 2003. The final system will be part of the Fund's new enterprise resource planning system.

545. The Director, Division for Finance, Administration and Management Information Services, and the Chief, Procurement Services Section, are responsible for implementation of the recommendation.

546. **In paragraph 112, the Board recommended that UNFPA follow up with country offices on all outstanding recommendations and enforce time restrictions given to country offices so as to facilitate a timely response.**

547. In 2001, UNFPA introduced the Comprehensive Audit and Recommendations Database System (CARDS) to record the follow-up of audit recommendations. Initially, some countries experienced problems in using the system. In addition to using CARDS, UNFPA performs audit trend analyses, special studies and follow-up missions in country offices with significant weaknesses. In many instances these

additional tools are more reliable, since many audit recommendations require recurrent compliance and cannot be addressed by one-time action. UNFPA recognizes, however, that all country offices should report on the status of recommendations. Since August 2002, country offices have been given a deadline to report their action plan, including a deadline for implementation of CARDS. An action plan with particular emphasis on deficient ratings will be submitted.

548. **In paragraph 114, the Board recommended that UNFPA formally:**

(a) Develop, implement and update a short-term to long-term strategic plan in respect of information and communication technology;

(b) Establish, approve, implement and update on a regular basis a security policy;

(c) Compile documented computer programme (check) change procedures.

549. The Fund's strategic plan in respect of information and communication technology will be completed in the first quarter of 2003. Elements of the Fund's security plan are contained in the management information system guidelines. The Fund's security policy will be documented and issued. The change will be documented by January 2003.

550. **In paragraph 118, the Board recommended that UNFPA develop a fraud prevention plan, including fraud awareness initiatives. In developing the plan, UNFPA should discuss features of it with the concerned units of the United Nations and other funds and programmes so as to obtain the benefit of best practices, where available, in specific or all of the elements being considered.**

551. UNFPA has been in informal consultations with UNDP and UNOPS to convene a group to develop a fraud prevention strategy, an initiative that will include consultations with other United Nations organizations on good practices. It is expected to have a strategy in place by the end of the current biennium.

552. The Director, Division for Finance, Administration and Management Information Services, is responsible for implementation of the recommendation.

Status of implementation of the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999

553. **In paragraph 11 (k), the Board recommended that UNFPA make every effort to recover the overpayment of up to $1.8 million from the contractors once the final value of the work done has been verified.**

554. UNFPA proposed the formation of a recovery committee to deal with the matter of overpayment. The terms of reference for the committee are under review by the UNDP Office of Legal and Procurement Support. Meanwhile, the verification of the actual value of overpayment is in its final stages.

555. The Deputy Executive Director (Programme) will make every effort to ensure that the matter is concluded by the end of the year.